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SUBJECT: ICELAND: SOCIAL DEMS IN DRIVER'S SEAT AFTER ELECTION  
VICTORY

11. (SBU) Summary: Icelandic Prime Minister Johanna Sigurdardottir's Social Democratic Alliance (SDA) came away with a clear victory in parliamentary elections on April 25, winning nearly 30 percent of the vote. The SDA now holds a commanding position in coalition talks, as their Left-Green (LG) partners in the current minority government suffered a last-minute fade and slipped to third behind the conservative Independence Party. A surprisingly strong performance by two other pro-EU parties means the SDA could abandon the LG in favor of an "EU Government," and Sigurdardottir is plainly using this fact as leverage in negotiations with the Euro-skeptic Left-Greens. Although the SDA and LG will probably stay together to create Iceland's first leftist majority government, the LG will likely be forced to move towards Brussels. Though the LG may demand some concessions in exchange, these are likely to be on domestic welfare and economic issues rather than foreign affairs, which are problematic given the LG's anti-NATO platform. Aware that time is on their side, the SDA will probably drag out the announcement of a new government to ratchet up the pressure on their would-be partners. End Summary.

12. (U) As anticipated, Iceland's Social Democratic Alliance (SDA) came away from national parliamentary elections on April 25 with the largest share of the vote. In its best performance since its founding a decade ago, Prime Minister Johanna Sigurdardottir's party won just shy of 30 percent of the vote and will hold 20 seats in the 63-member Althingi. Sigurdardottir proclaimed the results a clear signal that the public trusts the SDA to pull Iceland out of its economic difficulties, while also claiming that the SDA's desire to apply for EU membership played a key role. The SDA focused its message almost entirely on the EU question in the final three days of the campaign, arguing that the simple act of applying for membership would bring needed credibility to Iceland's economic recovery efforts.

13. (U) Saturday's results were an unwelcome surprise for Finance, Agriculture and Fisheries Minister Steingrimur Sigfusson's Left-Green Movement (LG), which lost nearly six percent from the final pre-election opinion polls. Although the LG's 22 percent share of the vote increases their Althingi delegation from nine seats to 14, the party had clearly hoped for more and struggled to spin the results as a victory rather than a disappointment. Commentators were quick to remind that the LG has historically suffered from last-minute electoral collapses, and pointed to several ill-advised statements by Left-Green ministers in the waning days of the campaign. Party Chair Sigfusson reportedly said at an event on April 23 that leading airline Icelandair might have to be nationalized, then quickly backtracked via a Ministry of Finance press release, while Minister of Environment Kolbrun Halldorsdottir criticized oil exploration efforts in the Dreka Region off Iceland's northeast coast and said the country should explore wind power instead. Taken together, the statements may have raised doubts in voters' minds about the LG's long-term abilities to rebuild

Iceland's economy. The party's downturn was particularly hard on MinEnv Halldorsdottir, who was not reelected to parliament.

¶4. (U) Combined with the Left-Green collapse, three other parties defied expectations. The conservative Independence Party, though clearly suffering voters' wrath over the economic collapse and government breakdown in January, did slightly better than anticipated and only fell to second place behind the SDA. The Progressive Party (PP), which struggled for much of the spring to find a compelling campaign narrative, nonetheless managed to gain three percentage points over the final pre-election polls and adding two MPs. Combined with the surprising run of the new Citizens' Movement, which took four Althingi seats in its maiden campaign effort, the Progressives' success may actually reflect a growing preference for EU membership more than anything else. Both the PP and Citizens' Movement have endorsed EU accession as a solution to Iceland's economic woes, and as such may have benefitted from the SDA's focus on the issue and the LG's push-back from Brussels.

¶5. (U) Final election results were as follows, with comparison to the 2007 elections:

SDA = Social Democratic Alliance  
IP = Independence Party  
LG = Left-Green Movement  
PP = Progressive Party  
CM = Citizens' Movement  
LP = Liberal Party  
MD = Movement for Democracy

Party Percent    MPs Change  
                  (MPs)

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SDA	29.8	20	+2
IP	23.7	16	-9
LG	21.7	14	+5
PP	14.8	9	+2
CM	7.2	4	--
LP	2.2	0	-4
MD	0.6	0	--

Note: The Althingi (parliament) has 63 members.

¶6. (SBU) Party chairs began staking out their negotiating positions immediately, with SDA Chair Sigurdardottir announcing simultaneously that she would be happy to see the SDA-LG government continue, but also that a majority had voted for pro-EU parties and that the new government needed to reflect this. The LG instead chose to spin the results as a nationwide move to the left and an endorsement of the current government's economic policies, with LG Chair Sigfusson going so far as to say on a Sunday night roundtable that only Iceland's "elite" wants EU membership. Progressive Chair Sigmundur David Gunnlaugsson, meanwhile, tried to avoid sounding desperate as he enthusiastically backed Sigurdardottir's suggestion that an SDA-PP-CM majority could coalesce around the objective of an EU membership bid.

¶7. (SBU) Coalition talks began on the afternoon of April 26, with PM Sigurdardottir and LG Chair Sigfusson meeting at Sigurdardottir's residence for informal discussions. Sigurdardottir said after the talks that they had covered the policies of the parties in general, including their positions on EU membership. At the televised post-elections roundtable later that night, both Sigurdardottir and Sigfusson admitted that the EU membership question was the most difficult issue that the SDA and the LG had to solve in their coalition negotiations. The SDA and LG parliamentary groups will meet today where the party leaders will seek a mandate from their respective parties to continue the coalition talks. From a technical perspective, PM Sigurdardottir still holds the mandate to lead the government. As such, the SDA and the LG do not have to meet with the President of Iceland to renew their mandate, but Sigurdardottir will do so out of courtesy on the afternoon of April 27.

18. (SBU) Comment: Looking ahead, the SDA will use the electoral results as leverage to force the LG to come around on the EU question. SDA parliamentarians have underscored the importance of applying for EU membership and are not keen on budging from that stance. Additionally, there is now a parliamentary majority for EU membership given that the SDA, the PP, the Citizens' Movement, and even a portion of IP MPs are willing to start accession negotiations with the EU. This puts the LG in a very difficult negotiating position.

19. (SBU) Comment, cont'd: Given the Left-Greens' evident desire to be part of Iceland's first leftist majority government, they will be under great pressure to yield to SDA demands on the EU question. In exchange, they may demand some face-saving concessions, most likely on economic, welfare, or environmental issues. This could mean a more difficult landscape for would-be investors in heavy industry, e.g. aluminum. However, there are few indications that the Left-Greens will press on core foreign policy issues, such as their desire for Iceland's withdrawal from NATO. LG insiders have noted to post that the party's foreign policy is lacking in depth, and that a push on foreign policy priorities would likely reveal splits between pacifist and neutralist elements within the LG. In any event, time is on the SDA's side, and we anticipate that Sigurdardottir may draw out coalition talks as a way of increasing public pressure on the LG to give on the EU membership issue.

VAN VOORST